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**SALT RIVER PROJECT**

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January 8, 2002

**RICHARD M. HAYSLIP**  
MANAGER

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AZ CORP COMMISSION  
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Arizona Corporation Commission

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JAN 08 2002

Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 W. Washington  
Phx, AZ 85007-2927

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Dear Director Johnson:

We have received your letter of December 21, 2001 regarding our air permit application filed with the Maricopa County for the expansion of the Santan Generating Station. In the letter you asked that we explain our purpose in filing the air permit revision that includes provisions relating to the use of distillate fuel oil at the facility. Your concern arises from apparent inconsistencies with the application and conditions included in the Certificate of Environmental Compatibility for the Santan Expansion issued by the ACC.

We regret not having discussed with you in advance of filing the application our rationale for including the distillate oil option. We are hopeful that this letter will clarify our intent. Please be assured that SRP intends to fully comply with all conditions set forth in the Certificate of Environmental Compatibility, including those which require more stringent operational and technological measures than required by other regulatory agencies. There are two such provisions in the ACC order.

Condition 35 mandates a presumptive application of Lowest Achievable Emission Rates (LAER) for all criteria pollutants irrespective of the requirements derived from the Maricopa County regulations for new or modified sources. Although under the County's rules, the significant reductions we are making on the existing units would preclude the LAER requirement for CO and NOx, we are nonetheless seeking a LAER determination from the County consistent with the Commission's order. Attached is a copy of the letter requesting this determination.

The second provision that is more stringent than the County requirement is Condition 36 prohibiting the use of diesel oil for power generation at Santan. Notwithstanding our acknowledgement of this requirement and our full intent to comply with it, we nonetheless are attempting to secure an air quality permit from the County that is compliant with the regulatory requirements appropriate to that permit yet preserves the Commission's authority to prohibit the use of fuel oil.

We believe this approach is in the best interest of our customers and the Commission itself.

Issues related to the security of energy supplies have been brought into sharper focus in the past several months. The California energy crisis has raised awareness of the potential risks and negative outcomes associated with disruptions to energy supplies. Recent financial problems experienced by key participants in the western energy economy have introduced a new element of uncertainty regarding infrastructure development and ownership. In response to these and other risks and uncertainties policymakers and utilities are recognizing the importance of maintaining a diverse set of options for meeting customer requirements.

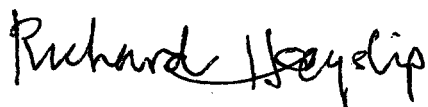
While we understand the reasoning used by the Commission in reaching its decision prohibiting the use of distillate oil, we are also cognizant of the uncertainty regarding energy supplies as we move into the future. It is not inconceivable that under extreme conditions of region-wide and protracted gas curtailments the Commission may wish, in the public interest, to temporarily suspend its prohibition on distillate oil use at Santan. Should such an emergency occur, the Commission and the public would be best served by avoiding any delay associated with the County's permit revision process.

It is also important to note that process we are now undertaking to secure the permit will require rigorous analyses to determine the impact of oil burning on the health based Ambient Air Quality Standards. By performing this analyses in connection with the permit application we will provide the Commission with the assurance that should they, in an extreme emergency, temporarily allow the use of distillate oil at Santan, it would do so without threatening public health. We have had preliminary discussions with the county and will incorporate explicit language in the permit referencing the Commission's sole authority to declare an emergency requiring the use of oil.

In conclusion, SRP regards the ACC siting process and the Maricopa County air quality permitting process as separate regulatory requirements necessary for the operation of the Santan Expansion Project. We fully intend to comply with all requirements imposed in both permits.

We appreciate the opportunity to explain our reasoning on this matter and would be pleased to discuss it further with you.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard Hayslip". The signature is fluid and cursive, with the first name "Richard" and last name "Hayslip" clearly distinguishable.

Richard M. Hayslip

Attachment

cc: Chairman William A. Mundell  
Commissioner Jim Irvin  
Commissioner Marc Spitzer  
Richard Silverman, General Manager, Salt River Project  
Kelly Barr, Manager, Regulatory Affairs, Salt River Project  
Kenneth Sundlof, Esq.  
Al Brown, Director, Environmental Services, Maricopa County  
Kevin Wanttaja, Manager, Environmental Compliance, Salt River Project



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December 19, 2001

Mr. Dale Lieb  
Air Quality Division  
Maricopa County Environmental Services Dept.  
1001 North Central Avenue, Suite 200  
Phoenix, Arizona 85004-1942

**Re: LAER Request for the Santan Expansion Project**

Dear Mr. Lieb:

As you know, SRP submitted an air quality permit application for the expansion of its Santan Generating Station on November 30, 2001. Since the expansion project will constitute a major modification for VOC and PM10, the project is subject to nonattainment New Source Review, and the new equipment must be designed to meet the Lowest Achievable Emission Rate (LAER) for both of these pollutants.

However, as we discussed, the Certificate of Environmental Compatibility issued by the Arizona Corporation Commission for the expansion project requires SRP to request that the County make a determination of LAER for CO, NOx, VOC and PM10. Although SRP's application included a LAER analysis for all of these pollutants, SRP did not specifically request that the County make a determination of LAER for CO and NOx. So, by this letter SRP is officially requesting that the County determine LAER for the expansion project not only for VOC and PM10, but for CO and NOx as well. A summary of the LAER analysis included in SRP's air quality permit application is presented below.

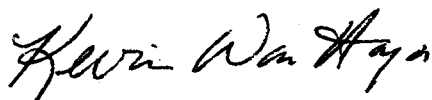
LAER for a source is defined by the Federal, State and County air permitting rules as the most stringent emission limit contained in the State Implementation Plan for such source, or the most stringent emissions limitation which is achieved in practice by such class or category of source. As part of SRP's air quality permit application, SRP surveyed recently permitted power plants currently in operation and determined that the lowest emission rate being achieved in practice by large natural gas fired combined cycle units are as follows, and therefore constitutes LAER:

Mr. Dale Lieb  
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Pollutant	LAER
VOC	2.0 ppmvd
PM10	0.01 lb/MMBtu
CO	3.9 ppmvd
NOx	2.5 ppmvd

Please contact me at (602) 236-2968 if you have any questions.

Sincerely,



Kevin Wanttaja  
Environmental Compliance

cc: Steve Branoff, Environ  
Pete Rosen, LFR  
Tom Arnold, LFR  
File: PRJ 12-2